

Statement of Edward C. Sullivan
President
Building and Construction Trades Department
AFL-CIO

Committee On Financial Services
Oversight and Investigations Subcommittee
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Madame Chairwoman and Members of the Subcommittee, on behalf of the 3 million men and women of America's building and construction trade unions, I appreciate the opportunity to express our strong support for the prompt enactment of federal terrorism insurance legislation. The unavailability of terrorism insurance is hurting the construction industry by making the cost and risk of undertaking new building projects prohibitive.

There is growing evidence that this crisis is real.

Just last week Reuters reported that "If you are a developer looking for money to finance construction of a big office building or you need to refinance a mortgage for a well-known commercial tower, chances are you will have a tougher time getting that loan. And if you do get the cash, you'll pay more because borrowing costs have risen in the wake of Sept. 11 due to uncertainty related to terrorism insurances."

And on February 18th, the CEO of GMAC Commercial Holding Corp. in Horsham, PA said, "This company will not do any significant construction loans without a terrorism policy that would cover the term of the loan...so at a minimum, unless you come in with terrorism coverage, I'm not in the construction lending business anymore."

Madame Chairwoman, these instances are repeating themselves across the country in every state in the Union. The manifestation is not immediate but the threat is insidious and pervasive. There is no doubt that if the lenders catch a cold in February, that the construction and building trades will have pneumonia by summer.

Every day that goes by between now and the time Congress completes action on terrorism insurance legislation presents an increasing threat to our members whose livelihood is dependent upon a robust and healthy atmosphere for building and construction. Every day that goes by without a federal terrorism insurance law on the books presents a serious and escalating threat to the building and construction industry as a whole, and likely to downstream industries like suppliers. This translates into a threat to our economy and a loss of jobs for our members. But a federal backstop for terrorism insurance can do away with both of these threats. It is as simple as that.

We commend you and your colleagues on the House Financial Services Committee for your leadership and for responding so promptly in reporting out a terrorism insurance bill which passed the House late last year. Although legislation has passed the House, it has stalled in the Senate. I would like to use this opportunity today to report to you that I have joined with Steve Bartlett, President of the Financial Services Roundtable, in sending letters to President Bush and Senators Daschle and Lott, among other senators, urging the Senate to move forward expeditiously to complete whatever actions are necessary to finalize this legislative effort. A copy of the letter is attached to my statement.

As this subcommittee well knows, the availability of terrorism reinsurance essentially evaporated after the September 11 terrorist attacks. Without reinsurance, insurers are unable to spread the risk of their policyholders' losses. If insurers cannot spread risk through reinsurance, they cannot accept risk from their policyholders. What this means in the real world is a dramatic contraction in the availability of insurance and a dramatic impact on the cost of insurance, when it is available. The purpose of the federal legislation is to provide a federal reinsurance backstop for a short period of time, until the private reinsurance market recovers, thus making insurance available again. Under the legislation -- both H.R. 3210 and the Senate version -- if no major terrorist events occur, the federal government incurs no expense.

This reinsurance availability crisis is particularly critical for the construction industry, especially that part of the industry engaged in the construction of major commercial facilities and large structures. All of us know from September 11 that the terrorists are aiming at America's infrastructure. Because of that, building projects are being delayed or cancelled. Lenders are refusing to go forward with previously planned projects where terrorism insurance coverage is no longer available. And construction workers -- our members -- are losing job opportunities. As Mr. Bartlett and I noted in our letters:

The lack of insurance has had a chilling effect on lending for large commercial construction projects, and though the breadth of the negative impact may not be fully evident, there is no doubt that lenders' are steering money away from projects that lack insurance... (O)nce the insurance problem is imbedded in the economy, the deleterious impact on growth will be difficult to reverse.

The evidence of economic impact is all around us. It may not be quite as dramatic as bricks suddenly falling off of buildings; but it is becoming more and more dramatic as we see the bricks that are sitting idle and not being used for new construction, because construction projects throughout our country are being put on hold. This market disruption is a particular threat in high-risk geographic areas and for projects that can be perceived as high profile or high-risk -- stadiums, office towers, airports, subways, shopping malls, resorts, universities, theme parks, power plants, railroads, and hospitals.

Madame Chairwoman, I am aware that there are some who sincerely believe that there is not a crisis. I would caution those who believe this, that they misunderstand the nature of the crisis. The reason that the insurance mechanism has not imploded is that in many states, the insurance commissioners have allowed insurers to exclude terrorism losses from their commercial insurance policies. This action will certainly help the insurance mechanism from collapsing, but what it really does is to transfer the risk of a terrorist event back to the policyholders. In reality, this means that if there is another awful terrorist event, there will be no insurance, or inadequate insurance, to cover it. So what this means to real estate developers is that they will simply not build their buildings. Even if they wanted to -- if they wanted to shoulder all of the risk -- they in all likelihood could not secure the financing.

For those of us who represent America's workers, economic disruption is not some sterile statistical concept. To us it means jobs -- and as I said in the beginning of my statement, it is as simple as that. Economic disruption means jobs lost, communities diminished, and families disrupted.

In the aftermath of September 11 many of the brave men and women who are doing the dangerous work clearing the World Trade Center site and making it safe again are members of our unions. They continue to work incredibly long hours, coping with emotional and physical challenges unimaginable to most of us. These terrorist acts are not targeted at insurance companies, commercial lenders, real estate developers or unions; the target is America and her most recognizable symbols. During a time when our political leaders remind us daily of impending threats, it makes sense that the federal government would fill the breach left by the natural flight of some reinsurers.

Madame Chairwoman, enacting terrorism insurance backstop legislation is too important to be derailed by partisan arguments. Thus, differences on issues not at the core of the legislation -- but holding-up Senate action -- should be resolved through good faith compromise. Organized labor and the business community have come together to jointly urge the Congress to move forward promptly with this legislation. This is powerful evidence that action is needed and that normal differences should be put aside in light of the extraordinary circumstances that have caused the need for this legislation. The continuing health of our economy depends on it. The livelihoods of millions of American workers and their families that extend way beyond the membership of our union depend on it.

Our members would like to have the opportunity to continue to work, to build and to support their families. The prompt adoption of terrorism insurance by the Congress can make this possible and can save our economy from serious consequences that are beginning to occur already because this legislation is not yet in place. We strongly urge you to continue your efforts to get this job done and we, again, commend you and your committee for all you are doing to help us realize this goal.